

transfer of the notes and the stock, not the ownership claim on the notes. The agreement and the reference would have to state such a monumental fact as the notes no longer being issued to the stockholders but to the stock. This would have become a major factor in the case, but it did not because it is not factually correct. The original notes were issued to the stockholders and they exchanged them for the 5% Income Notes that were also issued to the stockholders. The stockholders entered into an agreement that they would not sell or give away the notes without doing the same with the stockholdings, and they would not sell or give away the stock without doing the same with the notes. This type of bilateral agreement between the corporation and the stockholders is not claimed in the invention called a Share Bond. The only agreement is a unilateral one from the corporation.

2. The Applicant apologizes to the Examiner:

In hindsight the Applicant realizes that he should have provided a marked reference and further explanation of this important reference to the Examiner. The Applicant apologizes for not doing so earlier and expresses regret for any measure of responsibility in leading the Examiner to the misunderstanding of the Universal Casting Ruling reference.

3. New Reference Provides Further Proof:

The original tax court decision 37 T.C 107; U.S. Tax Ct. provides a more descriptive explanation of the structure than the appellate decision does. This new reference states definitively on page 1 under Syllabus "Petitioner, a corporation, issued notes to its shareholders to replace notes already held by them." This is written proof that new notes were issued to the shareholders and not to a share or shares of stock. The Universal Casting Ruling does not disclose a debt instrument issued to a share or shares of stock.

4. One of Ordinary Skill:

The Universal Casting Ruling reference now relied upon by the Examiner is only relevant to the field of tax law. The only one of ordinary skill to have anything to do with this reference would be a tax attorney. If the Examiner does not agree that for the purpose of this patent application examination the one of ordinary skill is a tax attorney, then the Applicant respectfully requests that the Examiner state the field of knowledge that the one of ordinary skill occupies for the purposes of this patent application examination.

5. The Universal Casting Ruling cannot be used as a reference:

The Universal Casting Ruling reference does not disclose a debt instrument issued to a share or shares of stock. To the contrary, the Universal Casting Ruling reference discloses a debt

instrument issued to the shareholders of a corporation. The Universal Casting Ruling reference does not disclose a debt instrument that the shareholders have not exchanged any money or property for the debt instrument. To the contrary, the Universal Casting Ruling reference discloses a debt instrument that the shareholders have exchanged money or property for the debt instrument. The Universal Casting Ruling reference does not disclose a debt instrument that the corporation or business entity receives adequate consideration in money's worth in the form of equity enhancement of the corporation's or business entities equity in return for the written unconditional promise to pay a sum certain in money. To the contrary, the Universal Corporation Ruling reference discloses a debt instrument that the corporation received property from the shareholder in return for the written unconditional promise to pay a sum certain in money. The Universal Casting Ruling **does not meet the claims of the invention.**

The Universal Casting Ruling demonstrated to anyone skilled in the art that to join a debt instrument to share of stock and have that debt instrument pay tax deductible interest was an **insoluble problem**. The claimed invention converts failure into success. The failure of the prior art here indicates that a solution was not obvious. The claimed invention is a **solution of a long-felt and unsolved need** dating back to at least 1961. **The lack of implementation** indicates that if the invention were in fact obvious, because of its advantages, those skilled in the art surely would have implemented it by now. That is - the fact that those skilled in the art have not implemented the invention, despite its great advantages, indicates that it is not obvious.

A tax attorney skilled in the art would have to greatly modify the Universal Casting Ruling to solve this problem and the modifications that are required to meet the claims to render a solution **are not suggested by the reference**. The reference alone is **an inoperative reference** without such modifications. The invention is classified in a crowded art; therefore even a small modification should be regarded as significant but the modifications required are anything but small.

The first modification will require a change in fundamental definitions and use of financial securities. Proof of this fact is provided by a new reference found in the Encyclopedia of Banking and Finance page 498 under the heading Investment Securities. The reference states "The term investment securities has come to be indiscriminately applied to all classes of bonds and stocks, regardless of quality." The reference also discloses that marketability and investors are necessary components of an investment security. The modification required would be that the shareholders pay no money or property for the bond or debt instrument so there would be no marketability, no investors and no investment. The **modification is contrary** to the teachings of the prior art. In fact, the invention goes against the grain of what the prior art teaches fundamentally. This is also contrary to the use of financial securities since they are used by corporations or business entities to acquire money for operations. However, this modification is necessary to assure not only that the debt instrument will not be owned by the shareholders (Universal Casting Ruling) but will also be functional for

corporations with millions of shareholders, not just a few as in the Universal Casting Ruling. This is a very new principle of operation and the invention is blazing a trail rather than following one.

If the tax attorney skilled in the art of tax law makes the modification to prohibit the shareholder from paying any money or property for the debt instrument a new problem arises. The corporation has not received "adequate consideration in money or money's worth" in return for the written unconditional promise to pay a sum certain in money on a specified date. This would cause the debt instrument to be classified as an equity by the tax court and render the instrument inoperative. The tax attorney must find a way for the corporation to receive something of adequate value without the shareholder paying any money or property for the written unconditional promise to pay a sum certain in money on a specified date. This is quite "tricky" for our tax attorney and it is imperative that the modification not allow the shareholders to own the debt instrument or the debt instrument will be rendered an inoperative equity by the tax court under the Universal Casting Ruling.

The second modification required would be that the right to sum certain in money to be paid on a specified date and the right to the fixed rate of interest would be issued not to the shareholder but to the share or shares of stock. This assures that the shareholder can have no legal claim of ownership on the debt instrument and forms another new principle of operation with unexpected results. The unexpected result is that by issuing the debt instrument to the share or shares of stock the corporation receives adequate consideration in money's worth in the form of increased value of the corporation's stock which is also a third modification of the Universal Casting Ruling. The tax attorney must do both the first and the second modification in order to even reveal the third modification. This gives the invention an advantage that was impossible to appreciate by those skilled in the art.

The Universal Casting Ruling was attempting to solve the problem of paying shareholders tax deductible interest but failed. The invention claimed not only solves that problem but solves a different problem. The invention claimed also increases the value of a corporation's stock (equity) and this different problem will be recited in the amended claims.

These 3 modifications required are substantial changes in operation of a debt instrument and are not suggested in the one reference now cited by the Examiner. The fourth modification is a new and unexpected result of the 3 previous modifications that allows tax deductible interest to be paid to the shareholder. The prior art has failed to do this despite the long-felt but unsolved need.

The fifth modification required is that the rate of interest must be a fixed rate of interest, and this is not the case in the Universal Casting Ruling. This is outlined in the new reference 37 T.C. 107; 1961 U.S. Tax Ct. in the judge's opinion on page 8 paragraph 4. The fact that the judge cites this as one of the reasons he found the instrument to be equity instead of debt would force a tax attorney to have a fixed rate of interest for the invention. A fixed rate of interest is a fundamental factor of the invention claimed.

There is actually a sixth modification that is "hidden" in the third modification. Equity enhancement not only gives the corporation the adequate consideration in money's worth to the corporation in return for the written unconditional promise to pay a sum certain in money on a specified date, but the shareholder also benefits from the equity enhancement as owners of the equity. This is another new and unexpected result of the invention claimed.

The seventh modification required will be that the shareholders do not enter into a bilateral agreement with the corporation or business entity. The shareholders in the Universal Casting Ruling entered into a "shareholders agreement" regarding the restrictions on the sale of the stock and the debt. This is explained in the new reference 37 T.C. 107; 1961 U.S. Tax Ct. page 6 paragraph 3. Such an agreement (bilateral) is unnecessary with the invention claimed. A bilateral agreement with all the shareholders is only possible with a very small number of shareholders and would be impossible to operate with a large number of shareholders. The invention claimed operates with a unilateral agreement or promise and can operate with an unlimited number of shareholders.

The modifications to the Universal Casting Ruling would be numerous and several are so substantial that they change the core purpose and operation of financial securities as they are now known. The Applicant submits that a tax attorney skilled in the art of tax law would not find these modifications to be obvious. In fact, the Universal Casting Ruling would only cement the idea that the problem of tax deductible interest paid to shareholders is an insoluble problem.

There are numerous indications that the invention is non-obvious over the prior art but there are several that are important to reaffirm.

1. The shareholder pays no money or property for the debt instrument (non-investment).
2. The right to the payment of a sum certain in money on a specified date and the right to a fixed rate of interest that are both issued to the share of equity.
3. The equity enhancement of a business entity's own equity operating as the adequate consideration in money's worth in return for the written unconditional promise to pay a sum certain in money to the shareholder of record.
4. Interest paid to the shareholder of the equity of the business entity that the business entity can deduct.
5. Fixed rate of interest.
6. Purpose to enhance the equity of the business entity.

These novel features produce several new and unexpected results from the standpoint of one skilled in the relevant art. Under the reasoning of the 1966 U.S. Supreme Court case *Graham v. John Deere*, this fact alone proves that the invention has met the test to be non-obvious. This case further cites specific circumstances such as long-felt but unsolved need and failure of others to come up with the invention. The circumstance of a long-felt but unsolved need is


demonstrated by the Universal Casting Ruling failure to provide tax deductible interest to the shareholder. The corporation's continual effort to enhance their equity by paying out huge sums of money in cash dividends and stock buybacks, neither of which are tax deductible, is evidence of the need for equity enhancement. The circumstance of a failure of others to come up with invention is demonstrated by the Universal Casting failure and the lack of implementation of the invention by other corporations. The Applicant submits that the invention is undeniably non-obvious.

6. Benefits:

The Applicant is unclear in regard to what benefits the Examiner is referring to in the statement "An application in which the benefits of an earlier application are desired must contain a specific reference to the prior application(s) in the first sentence of the specification (37 CFR 1.78). The Applicant would greatly appreciate any information about specific benefits that the Applicant might be entitled to if the specifications were modified in such a manner.

Claims

7. The Claims have been amended: Claims 11-16 have been canceled and Claims 17-26 have been substituted in their place.

 Claim 17. A method of enhancing the equity of a business entity by joining a debt instrument of said business entity to a share or shares of equity of said business entity by issuing or conveying the right to a sum certain in money to be paid on a specified date to said share or shares of equity of said business entity and in return said business entity receives adequate consideration in money's worth in the form of equity enhancement of said business entity's own equity and by issuing or conveying the right to the fixed rate of interest of said debt instrument of said business entity to said share or shares of equity of said business entity, whereby the right to said sum certain in money and the right to the fixed rate of interest of said debt instrument cannot be separated from said share or shares of equity of said business entity to be sold or traded separate from said share or shares of equity of said business entity, whereby the shareholder of equity of said business entity exchanges no money or property for said debt instrument, whereby the right to said sum certain in money and the right to the fixed rate of interest of said debt instrument of said business entity cannot be owned by the shareholder of equity of said business entity, comprising;

~~said debt instrument of said business entity formed by said business entity giving a written unconditional promise to pay said sum certain in money to the shareholder of record of said share or shares of equity of said business entity and to pay the fixed rate of interest to the shareholder of record of said share or shares of equity of said business entity,~~

~~said share or shares of equity of said business entity,~~

~~a means for said business entity to issue or convey the right to said sum certain in money to said share or shares of equity of said business entity and in return said business entity receives adequate consideration in money's worth in the form of equity enhancement of said share or shares of equity of said business entity,~~

~~a means for said business entity to issue or convey the right to the fixed rate of interest of said debt instrument of said business entity to said share or shares of equity of said business entity,~~

~~a means for prohibiting the right to said sum certain in money from being separated from said share or shares of equity of said business entity to be sold or traded separate from said share or shares of equity of said business entity,~~

~~a means for prohibiting the right to the fixed rate of interest of said debt instrument of said business entity from being separated from said share or shares of equity of said business entity to be sold or traded separate from said share or shares of equity of said business entity,~~

~~a means for prohibiting the shareholder of said share or shares of equity of said business entity from exchanging any money or property for the right to said sum certain in money,~~

~~a means for prohibiting the right to said sum certain in money from being owned by the shareholder of said share or shares of equity of said business entity,~~

~~a means for prohibiting the right to the fixed rate of interest of said debt instrument of said business entity from being owned by the shareholder of said business entity from being owned by the shareholder of said share or shares of equity of said business entity.~~

Claim 18. A method of enhancing the equity of a business entity by issuing a debt instrument of said business entity to a share or shares of equity of said business entity, comprising;

said debt instrument having a written unconditional promise to pay a sum certain in money on a specified date to the shareholder of record of said share or shares of equity of said business entity and having a fixed rate of interest to be paid to the shareholder of record of said share or shares of equity of said business entity,

said share or shares of equity of said business entity,

a means for said business entity to issue or convey the right to said sum certain in money to said share or shares of equity of said business entity and in return said business entity receives adequate consideration in money's worth in the form of equity enhancement of said share or shares of equity of said business entity,

a means for said business entity to issue or convey the right to said fixed rate of interest to said share or shares of equity of said business entity,

a means for prohibiting the right to said sum certain in money from being separated from said share or shares of equity of said business entity to be sold or traded separate from said share or shares of equity of said business entity,

a means for prohibiting the right to said fixed rate of interest from being separated from said share or shares of equity of said business entity to be sold or traded separate from said share or shares of equity of said business entity,

a means for prohibiting the right to said sum certain in money from being owned by the shareholder of said share or shares of equity of said business entity,

a means for prohibiting the right to said fixed rate of interest from being owned by the shareholder of said share or shares of equity of said business entity,

a means whereby said fixed rate of interest is tax deductible to said business entity.

Claim 19. A method and apparatus for enhancing the equity of a business entity by issuing a debt instrument of said business entity to a share or shares of equity of said business entity, comprising;

said debt instrument having a written unconditional promise to pay a sum certain in money on a specified date to the shareholder of record of said business entity and having a fixed rate of interest to be paid to the shareholder of record of said share or shares of equity of business entity,

said share or shares of equity of said business entity,

a means for said business entity to issue or convey in writing the right to said sum certain in money to said share or shares of equity of said business entity and in return said business entity receives adequate consideration in money's worth in the form of equity enhancement of said share or shares of equity of said business entity,

a means for said business entity to issue or convey in writing the right to said fixed rate of interest to said share or shares of equity of said business entity,

a means for said business entity in writing to secure with the assets of said business entity said sum certain in money to be paid to the shareholder of record on said specified date,

a means for prohibiting in writing the right to said sum certain in money from being separated from said share or shares of equity of said business entity to be sold or traded separate from said share or shares of equity of said business entity,

a means for prohibiting in writing the right to said fixed rate of interest from being separated from said share or shares of equity of said business entity to be sold or traded separate from said share or shares of equity of said business entity,

a means for prohibiting in writing the right to said sum certain in money from being owned by the shareholder of said share or shares of equity of said business entity,

a means for prohibiting in writing the right to said fixed rate of interest from being owned by the shareholder of said share or shares of equity of said business entity,

a means whereby said fixed rate of interest is tax deductible to said business entity.

Claim 20. The method or process of claim 17, comprising said debt instrument that cannot be separated from said share or shares of equity of said business entity except by said business entity paying said sum certain in money to the shareholder of equity of said business entity or to exchange another debt instrument of said business entity that is issued to said share or shares of equity of said business entity and said another debt instrument of said business cannot be owned by the shareholder of equity of said business entity.

Claim 21. The method or process of claim 17, comprising said debt instrument of said business entity that pays said fixed rate of interest to the shareholder of record of equity of said business entity, whereby a portion of said fixed rate of interest is tax deductible to said business entity.

Claim 22. The method or process of claim 17, comprising said sum certain in money that said business entity can amortize.

Claim 23. The method or process of claim 18, comprising said debt instrument that cannot be separated from said share or shares of equity of said business entity except by said business entity paying said sum certain in money to the shareholder of equity of said business entity or to exchange another debt instrument of said business entity that is issued to said share or shares of equity of said business entity and said another debt instrument of said business entity cannot be owned by the shareholder of equity of said business entity.

Claim 24. The method or process of claim 18, comprising said sum certain in money that said business entity can amortize.

Claim 25. The method and apparatus of claim 19, comprising said debt instrument that cannot be separated from said share or shares of equity of said business entity except by said business entity paying said sum certain in money from assets of said business entity to the shareholder of equity of said business entity or to exchange another debt instrument of said business entity that is issued to said share or shares of equity of said business entity and said another debt instrument of said business entity cannot be owned by the shareholder of equity of said business entity.

Claim 26. The method and apparatus of claim 19, comprising said sum certain in money that said business entity can amortize.

Conclusion:

The novel features of the claimed invention provide new and unexpected results from the standpoint of one skilled in the relevant art. This meets the legal standard for the invention to be non-obvious and thus patentable. The lack of implementation by others and the solution of



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Amendment B, contd.

a long-felt but unsolved need are just two legally stated reasons that the invention is non-obvious but there is a an overwhelming preponderance of evidence to support the conclusion of non-obvious regarding this invention. Claims have been amended for structural purposes cited by the Examiner.

Request For Constructive Assistance

8. The undersigned has made a diligent effort to amend the claims of this application so that they will comply structurally. If, for any reason, the claims of this application are not believed to be in full condition of allowance, applicant respectfully requests the constructive assistance and suggestions of the Examiner in drafting acceptable claims pursuant to MPEP 707.07(3) or in making constructive suggestions pursuant to MPEP 706.03 (d) in order that this application can be placed in allowable condition as soon as possible and without the need for further proceedings.

Very Respectfully,

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Camden, S.C.

I hereby certify that this correspondence
will be deposited with U.S. Postal
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on the date below.

Date: 7/11/01

Inventors Signature: Durham R. Maples